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Office of the Legislative Auditor

State of Montana

Report to the Legislature

February 1991

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1990

Montana Historical Society

This report contains five recommendations for improvement of the society's operations. The major items addressed in this report include:

- Spending unrestricted donations before General Fund moneys.
- Use of accommodations tax revenue.
- Merchandise inventory control weaknesses.
- Standard contract language.

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The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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STATE OF MONTANA

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Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

February 1991

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Historical Society for fiscal years 1988-89 and 1989-90. The report contains five recommendations concerning spending unrestricted donations before General Fund moneys, merchandise inventories, use of accommodations tax revenues, and contracts. The society's written response to audit recommendations is included in the back of the audit report.

We thank the director and the society's staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1990

Montana Historical Society

Audit staff involved in the Montana Historical Society audit included:
Pearl M. Allen, Renee Foster, Wayne D. Guazzo, and Charles V. Jensen.

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Appointed and Administrative Officials

Montana Historical Society Board of Trustees

		Term Expires July 1 of
Helen Hornby, President	Livingston	1993
Stuart W. Conner, Vice President	Billings	1993
John J. Burke	Butte	1995
Bruce L. Ennis	Billings	1991
Leif Erickson	Bigfork	1991
Charmaine Fisher	Billings	1994
Jack Hayne	Dupuyer	1995
William M. Holt	Lolo	1993
William Mackay	Roscoe	1994
Susan McDaniel	Miles City	1994
Harold Poulsen	Great Falls	1992
James W. Reger	Billings	1995
Richard Roeder	Helena	1992
Ward Shanahan	Helena	1992
Hal Stearns	Helena	1991

Montana State Historic Preservation Review Board

		Term Expires October 1 of
Jim McDonald, Chairman	Missoula	1992
Thomas Foor	Missoula	1993
Paul H. Gleye	Bozeman	1992
Dale Herbort	Helena	1994
Jack Horner	Bozeman	1994
Arnold Olsen	Helena	1993
Ross Plambeck	Kalispell	1991
Ellen Cornwall Sievert	Great Falls	1991
Donald A. Wetzel	Harlem	1991

Montana Historical Society

Lawrence J. Sommer	Director
Brian Cockhill	Administrative Officer
Sharon McCabe	Accountant

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the society's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Montana Historical Society:

A. Transfer the money in the general trust account from the Expendable Trust Fund to the Special Revenue Fund and spend non-General Fund money first, in accordance with state law, or

Agency Response: Do not concur. See page 28.

B. Seek legislation to exempt the society's donations from these laws. 6

Agency Response: Concur. See page 29.

Recommendation #2

We recommend the Montana Historical Society:

A. Spend its accommodations tax revenue in accordance with state law, or

B. Seek legislation to amend section 15-65-121, MCA, to allow the society to fund capitol tours with accommodation tax revenue. 8

Agency Response: Partially concur. See page 29.

Recommendation #3

We recommend the Montana Historical Society develop adequate internal control procedures over the store operation and merchandise inventory. 10

Agency Response: Partially concur. See page 30.

Recommendation #4

We recommend the Montana Historical Society:

A. Document reasons for adjustments to the perpetual inventory records. 11

Agency Response: Concur. See page 31.

B. Input actual inventory unit cost amounts. 11

Agency Response: Concur. See page 31.

Summary of Recommendations

Recommendation #5	We recommend the Montana Historical Society update its standard contract form to comply with current state contracted services requirements. 13
	Agency Response: Concur. See page 31.

Introduction

General

We performed a financial-compliance audit of the Montana Historical Society for fiscal years 1988-89 and 1989-90. The objectives of the audit were to:

1. Make recommendations for improvement in the management and internal controls of the society.
2. Determine if the society complied with applicable laws and regulations.
3. Determine if the society's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1990.
4. Determine the status of prior audit recommendations.

This report contains five recommendations to the society. These recommendations address areas where compliance with laws and regulations and financial reporting can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the society are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations.

Background

The Montana Historical Society was established in 1865 by the Territorial Legislature. State law authorized the society to become ". . . an agency of state government for the use, learning, culture, and enjoyment of the citizens of the state and for the acquisition, preservation and protection of historical records, art, archival and museum objects, historical places, sites, and monuments. The society has custody, maintenance and operation of the historical library, museums, art galleries, and historical places, sites and monuments."

Fifteen trustees, appointed by the Governor with the consent of the Senate, administer the society. The society's director

handles the immediate direction, management, and control of the society. The society was authorized 47 and 49 full-time equivalent (FTE) employees in fiscal years 1988-89 and 1989-90, respectively.

The society operates five programs with total annual budgeted expenditures of approximately $2.5 million. The main sources of funding are $1.1 million in General Fund support, $600,000 in sales of merchandise, $500,000 in federal grants, and $200,000 in private grants and donations.

Prior Audit Recommendations

Prior Audit Recommendations

The previous audit for the two fiscal years ended June 30, 1988, contained three recommendations which are still applicable to the society. The society has substantially implemented two and partially implemented one of the three recommendations. The society concurred with a prior audit recommendation that it comply with state law and policy by establishing more effective procedures to ensure contracts include all required provisions. This recommendation was partially implemented and is addressed again in the contract requirements section of this report.

Findings and Recommendations

General Trust Account

The society maintains a general trust account with assets of approximately $34,000 at fiscal year-end 1990. The general trust revenues during the audit period consisted of donations, investment earnings, and insurance proceeds. The society records the account's activity in the Expendable Trust Fund. No legislative appropriation is required to spend these funds because they are recorded in the Expendable Trust Fund.

Fund Classification

Section 17-1-102(4), MCA, requires state agencies to maintain their accounting records in accordance with generally accepted accounting principles (GAAP). Section 17-2-102, MCA, establishes the state's fund structure in accordance with GAAP. According to this law, trust funds should be "used to account for assets held by state government in a trustee capacity" and special revenue funds should be used to account "for the proceeds of specified revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes."

There are no trust agreements for any money included in the general trust account, although some of the donations do have restrictions. The society does not act in a trustee capacity; therefore, the society should record donations and related investment earnings in the Special Revenue Fund in accordance with state law.

In June 1989, the society received $5,000 in insurance proceeds for gold samples which were stolen. The society deposited the money in the general trust account. Section 2-17-105, MCA, requires insurance proceeds in this case be deposited in the Special Revenue Fund. The society should transfer the general trust account money from the Expendable Trust Fund to the Special Revenue Fund to comply with state law.

Non-General Fund Money First

Section 17-2-108, MCA, requires the society to apply expenditures against non-General Fund money wherever possible before using the General Fund appropriation. Similar language appears in Section 3 of the general appropriation bills of the 1985, 1987, and 1989 legislative session laws. The general appropriation bill states the approving authority, which is the Office of Budget and Program Planning:

> ". . . shall decrease the General Fund appropriation of the agency by the amount of funds received from other sources in excess of the appropriation provided in this act unless such action is expressly contrary to state or federal law, rule, or contract or unless the approving authority certifies that the services to be funded by the additional funds are significantly different from those for which the agency has received a general fund appropriation. If the General Fund appropriation of an agency is decreased pursuant to this section, the appropriation for the fund in which excess funds are received is increased in the same amount as the General Fund is decreased."

These laws require an agency to reduce its General Fund appropriation when the agency receives moneys which could be used to replace the General Fund portion of expenditures. The original donor's placed few restrictions on the donations recorded in the general trust account. The restrictions were such that these moneys could have been used to replace General Fund expenditures.

Society personnel indicated the Montana Historical Society Board of Trustees intended to use the general trust account principal only in case of emergency and decided to use the related investment income for future acquisitions of museum collections. Because the society's policy regarding use of the general trust account is more restrictive than the original donors' limitations, the society did not spend available non-General Fund money to the maximum extent possible and subsequently did not reduce its General Fund appropriation. The society should ensure its internal policies do not conflict with state law

and spend non-General Fund money first in compliance with state law.

Society officials believe donors intend their donations be used to improve and develop the museum's collections. Therefore, even when donors do not place restrictions on the use of their donations, society personnel feel they have an obligation to spend the donations for acquisitions of museum collections. Society personnel expressed concern that donations revenue would decrease if donors discovered donations were being used to support general operations. They also believe placing donations in the Expendable Trust Fund provides them with more flexibility in managing and using donated funds than if donations are placed in the Special Revenue Fund. If the state's treasury fund structure and non-General Fund money first laws create problems and reduce the effectiveness of the society's donation program, society officials should seek legislation which would exempt the society's donations from these laws.

Recommendation #1

We recommend the Montana Historical Society:

A. **Transfer the money in the general trust account from the Expendable Trust Fund to the Special Revenue Fund and spend non-General Fund money first, in accordance with state law, or**

B. **Seek legislation to exempt the society's donations from these laws.**

Use of Accommodations Tax

In fiscal year 1987-88, the state Department of Revenue began collecting an accommodations tax. The proceeds from the tax are statutorily appropriated in section 15-65-121, MCA. This statute allocates one percent of the money to the society "for the installation or maintenance of roadside historical signs and historic sites." Through June 30, 1990, the society received accommodations tax revenues of $134,100.

The society spent the money for tours of the capitol building, a historical site study commission, and historical signs as summarized in the following table. The capitol tours expenditures do not comply with section 15-65-121, MCA, which limits the society's expenditures of accommodations tax revenues to installation and maintenance of roadside historical signs and historic sites.

Table 1

Society Expenditures Funded By Accommodations Tax Revenue

Fiscal Year	Capitol Tours	Historic Site Study Commission	Historic Signs	Total Expended
1987-88	$14,173	$ -0-	$ -0-	$14,173
1988-89	16,734	-0-	1,065	17,799
1989-90	19,494	3,481	13,116	36,091
Total	$50,401	$3,481	$14,181	$68,063

Source: Statewide Budgeting and Accounting System

Society officials said the Governor's Office requested the society use the accommodations tax money to fund tours of the capitol building. According to society personnel, the legislature authorized the alternate use of the tax through the appropriation process. However, we could not find language in the society's appropriation specifically allowing it to use accommodation tax revenue for capitol tours. In addition, 39 Opinions of the Attorney General, Number 25, states that appropriation bills cannot be used to amend substantive law. If the society intends to continue the current practice, it should seek legislation to amend section 15-65-121, MCA, to allow it to fund the capitol tours with its accommodations tax revenue.

Recommendation #2

We recommend the Montana Historical Society:

A. Spend its accommodations tax revenue in accordance with state law, or

B. Seek legislation to amend section 15-65-121, MCA, to allow the society to fund capitol tours with accommodation tax revenue.

Merchandise Inventories

The society operates a merchandising program consisting of the museum store, Montana, The Magazine of Western History, and the Montana Historical Society Press. The society maintains a significant amount of inventory for this program. It recorded inventory on the Statewide Budgeting and Accounting System (SBAS) of approximately $231,000 and $322,000 at June 30, 1989 and 1990, respectively. During our observations of the society's merchandise inventory counts at June 30, 1989 and 1990, we identified concerns regarding controls to ensure store merchandise is not stolen or misused, and inadequate supporting documentation for inventory adjustments and unit costs of inventory items.

Inventory Controls

During the audit period, the merchandise manager was responsible for several functions, including the following:

1. ordering and purchasing merchandise inventory with the approval of the publishing editor;
2. supervising receipt of merchandise inventory;
3. recording inventory receipts on the society's perpetual inventory system;
4. supervising, and sometimes recording, sales;

5. supervising and taking the physical count of inventories; and

6. making adjustments to the perpetual inventory system.

This combination of functions placed the merchandise manager in a position to perpetrate and conceal errors or irregularities in the normal course of the manager's duties.

State policy (MOM 2-1210.00) states that no one person should perform incompatible functions. MOM 2-1210.00 recommends the functional responsibilities of recordkeeping, authorization, operations and custodianship be separated. MOM 2-1754.50 specifically states that "Persons in charge of stockrooms and/or of maintaining perpetual inventory records should not be in charge of taking physical inventories."

A society official indicated there was limited staff available in the store operation to adequately segregate duties. Society personnel also indicated it is not feasible for the accounting staff to perform any store functions due to current workload in the accounting operation. We agree duties could not be appropriately segregated within the store operation. However, we believe duties could be adequately segregated by allocating duties differently between staff in the society's magazine and administrative programs, which include the store and accounting operations.

Society personnel maintain the following procedures adequately compensate for the situation described above:

1. the publications manager or assistant editor approve all purchases; and

2. the administrative officer and publications editor review expenses to insure purchases and expenditures are proper.

We agree these two controls are helpful, but they are not sufficient to safeguard the approximately $300,000 in merchandise inventory from theft or misuse. As noted in the following report section, society personnel may adjust the perpetual inventory records without documenting the reason for the

change. Because of the lack of documentation, society management can not determine why the inventory balances changed or if the changes are reasonable. We believe personnel not directly involved in the daily store operations such as the publications manager should plan and control the annual physical inventory, perform the reconciliation of physical counts to the perpetual records, and implement more detailed procedures to determine whether:

1. adjustments made to the perpetual system throughout the year are reasonable,
2. all merchandise paid for is included on the perpetual inventory system,
3. sales are reasonable in relation to cost of goods sold and the number of visitors to the society, and
4. sales on the merchandising computer system agree to sales recorded on SBAS.

Recommendation #3

We recommend the Montana Historical Society develop adequate internal control procedures over the store operation and merchandise Inventory.

Inventory Adjustments and Unit Costs

Society personnel could not provide documentation explaining or supporting several adjustments to the perpetual inventory records. For example, the society's July 3, 1990 Inventory Adjustments Journal contained unexplained adjustments netting to $10,648 for 26,587 items. Adjustments may result from corrections of errors, breakage in the store, lost or stolen merchandise, or other transactions. Society personnel stated they usually remember the circumstances causing the adjustment and do not need written support. All adjustments should be supported by documentation of the reason for the adjustment. Without

sufficient support documentation, the possibility exists that invalid or incorrect adjustments are recorded on the perpetual inventory system.

Generally accepted accounting principles and state law require merchandise inventory be recorded at the lower of historical cost or market value. The unit cost on the perpetual inventory records for 5 of 15 items tested at fiscal year-end 1988-89 did not agree to the actual (historical) unit cost on invoices. Unit costs recorded on the inventory system for merchandise purchased did not include all discounts received. The merchandise manager indicated in March 1990 that unit costs, which the manager inputs in the perpetual inventory system, were based on the invoice amount before applying discounts received.

The society should implement procedures to maintain adequate documentation supporting inventory adjustments and input appropriate unit cost amounts.

Recommendation #4

We recommend the Montana Historical Society:

A. **Document reasons for adjustments to the perpetual inventory records.**

B. **Input actual inventory unit cost amounts.**

Contract Requirements

Contracted services policies and laws in effect for the audit period are included in Management Memo 1-88-4-6, which establishes 21 minimum requirements for contract content. Section 11 of the general appropriation bills of the 1987 and 1989 legislative sessions requires access to the records of the contracting entity for legislative audit and fiscal analysis. According to the general appropriation bills, if the contract does not contain the required access provision, "no money appropriated by this act may be expended for such a contract."

We tested the society's standard contract form, which is used to prepare contracts, and five executed contracts to determine whether the agency complied with the requirements in Management Memo I-88-4-6 and section 11 of the general appropriation bills in effect during the audit period. None of the contracts contained the following required provisions.

1. The consultant furnish proof of Workers' Compensation coverage.

2. The contractor maintain reasonable records of his performance and allow access to these records by the agency and, where required by law, the Legislative Auditor and Legislative Fiscal Analyst.

3. Venue.

4. A statement as to whether the contract is subject to litigation or binding arbitration.

5. The name and address of the liaison for the contractor and the address of the liaison for the society.

By not including the access provision required by the general appropriation bills, the society spent approximately $72,000 in fiscal year 1988-89 and $44,000 in fiscal year 1989-90 for which no appropriated funds could legally be used.

Society personnel indicated a standard contract form is used and they updated the form based on Management Memo 4-81-4R. Society personnel indicated they did not receive a copy of Management Memo I-88-4-6 until July 1989, although it went into effect May 1, 1988. Society personnel should ensure contracts are updated to comply with current state contracted services requirements.

Recommendation #5

We recommend the Montana Historical Society update its standard contract form to comply with current state contracted services requirements.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The independent auditor's report issued on the financial schedules contained in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

We issued an unqualified opinion on the Schedule of Changes in Fund Balances, the Schedule of Budgeted Revenue - Estimate and Actual, and the Schedules of Budgeted Program Expenditures by Object and Fund - Budget and Actual. This means the schedules are fairly stated in all material respects and the user may place reliance on the information presented.

STATE OF MONTANA

Office of the Legislative Auditor

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JIM PELLEGRINI
Performance Audit

GISLATIVE AUDITOR:
SCOTT A. SEACAT

GAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Montana Historical Society for each of the two years ending June 30, 1989 and 1990, as shown on pages 18 through 25. These financial schedules are the responsibility of the society's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the society's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Historical Society for the two years ended June 30, 1989 and 1990, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 10, 1990

MONTANA HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1990

	General Fund	Special Revenue Funds	Enterprise Funds	Expendable Trust Funds	Nonexpendable Trust Funds
FUND BALANCE: July 1, 1988	$ 0	$ 135,064	$ 203,013	$315,598	$120,924
ADDITIONS					
Fiscal Year 1988-89					
Budgeted Revenue & Transfers In	3,247	744,356	609,015		
Nonbudgeted Revenue & Transfers In		25,000		32,895	8,860
Support From State of Montana	1,105,203				
Cash Transfers In		49,022			
Prior Year Revenue		(2)			
Prior Year Revenue Adjustments		48,392	(10,034)	(24,500)	
Fiscal Year 1989-90					
Budgeted Revenue & Transfers In	6,560	659,471	608,766		
Nonbudgeted Revenue & Transfers In		3,835		36,424	13,445
Support from State of Montana	1,147,489				
Cash Transfers In		53,217			
Prior Year Revenue		1,074			
Prior Year Revenue Adjustments		33,111			
Direct Entries to Fund Balance				4,450	
Total Additions	2,262,499	1,617,476	1,207,747	49,269	22,305
REDUCTIONS					
Fiscal Year 1988-89					
Budgeted Expenditures & Transfers Out	1,108,531	816,673	598,014		
Nonbudgeted Expenditures & Transfers Out			(11,951)	14,703	500
Prior Year Expenditures		(2)			
Prior Year Expenditure Adjustments	(81)	16,144	(75)		
Fiscal Year 1989-90					
Budgeted Expenditures & Transfers Out	1,150,694	670,443	608,086		
Nonbudgeted Expenditures & Transfers Out		3,835	(99,400)	11,097	8,300
Prior Year Expenditure Adjustments	3,355	32,184	3,569		
Total Reductions	2,262,499	1,539,277	1,098,243	25,800	8,800
FUND BALANCE: June 30, 1990	$ 0	$ 213,263	$ 312,517	$339,067	$134,429

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 22 through 25.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN - ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1990

	Charges For Services	Investment Earnings	Federal Indirect Cost Recoveries	Sale of Documents, Merchandise, & Property	Grants, Contracts, Donations, & Abandonments	Other Financing Sources	Federal	Total
Fiscal Year 1989-90								
GENERAL FUND								
Estimated Revenue	$2,500							$ 2,500
Actual Revenue	6,560							6,560
Collections Over (Under) Estimate	$4,060							$ 4,060
SPECIAL REVENUE FUND								
Estimated Revenue		$ 3,200	$28,226	$ 39,915	$ 284,677	$ 13,200	$502,977	$ 872,195
Actual Revenue		0	28,049	32,157	183,747	9,175	406,343	659,471
Collections Over (Under) Estimate		$ (3,200)	$ (177)	$ (7,758)	$(100,930)	$ (4,025)	$(96,634)	$(212,724)
ENTERPRISE FUNDS								
Estimated Revenue				$500,000		$ 45,879		$ 545,879
Actual Revenue				562,887		45,879		608,766
Collections Over (Under) Estimate				$ 62,887		$ 0		$ 62,887
Fiscal Year 1988-89								
GENERAL FUND								
Estimated Revenue	$2,500							$ 2,500
Actual Revenue	3,247							3,247
Collections Over (Under) Estimate	$ 747							$ 747
SPECIAL REVENUE FUND								
Estimated Revenue		$ 24,200	$27,288	$ 33,874	$ 514,088		$ 832,746	$1,432,196
Actual Revenue		3,583	26,329	32,043	187,641		494,760	744,356
Collections Over (Under) Estimate		$(20,617)	$ (959)	$ (1,831)	$(326,447)		$(337,986)	$ (687,840)
ENTERPRISE FUNDS								
Estimated Revenue				$478,577		$ 41,320		$ 519,897
Actual Revenue				567,695		41,320		609,015
Collections Over (Under) Estimate				$ 89,118		$ 0		$ 89,118

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 22 through 25.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Administration	Library	Museum	Magazine	Historical Sites Preservation	Total
PERSONAL SERVICES						
Salaries	$295,839	$291,812	$126,392	$129,041	$162,204	$1,005,288
Employee Benefits	67,839	67,410	31,482	29,167	36,125	232,023
Total	363,678	359,222	157,874	158,208	198,329	1,237,311
OPERATING EXPENSES						
Other Services	90,154	14,084	33,436	34,755	6,337	178,766
Supplies & Materials	7,398	13,681	24,857	6,839	6,194	58,969
Communications	13,082	9,141	5,458	18,719	12,063	58,463
Travel	27,661	5,842	2,800	2,537	16,519	55,359
Rent	127,487	3,957	1,334	8,732	10,107	151,617
Repair & Maintenance	8,512	9,107	6,065	1,526	2,357	27,567
Other Expenses	6,363	3,553	11,457	9,949	5,511	36,833
Goods Purchased For Resale				365,536		365,536
Total	280,657	59,365	85,407	448,593	59,088	933,110
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment	400	67,960	1,279	1,285	7,312	78,236
Total	400	67,960	1,279	1,285	7,312	78,236
GRANTS						
From Federal Sources					134,616	134,616
Total					134,616	134,616
TRANSFERS						
Accounting Entity Transfers				45,879		45,879
Total				45,879		45,879
DEBT SERVICE						
Leases					71	71
Total					71	71
TOTAL PROGRAM EXPENDITURES	$644,735	$486,547	$244,560	$653,965	$399,416	$2,429,223
GENERAL FUND						
Budgeted	$516,282	$384,308	$214,271	$ 45,879	$ 70,457	$1,231,197
Actual	487,750	361,677	185,871	45,879	69,517	1,150,694
Unspent Budget Authority	$ 28,532	$ 22,631	$ 28,400	$ 0	$ 940	$ 80,503
SPECIAL REVENUE FUND						
Budgeted	$231,974	$189,169	$ 79,800		$508,947	$1,009,890
Actual	156,985	124,870	58,689		329,899	670,443
Unspent Budget Authority	$ 74,989	$ 64,299	$ 21,111		$179,048	$ 339,447
ENTERPRISE FUNDS						
Budgeted				$636,983		$ 636,983
Actual				608,086		608,086
Unspent Budget Authority				$ 28,897		$ 28,897

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 22 through 25.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	Administration	Library	Museum	Magazine	Historical Sites Preservation	Total
PERSONAL						
Salaries	$284,483	$286,678	$151,649	$114,421	$139,592	$ 976,823
Employee Benefits	63,481	65,728	36,094	24,243	30,381	219,927
Total	347,964	352,406	187,743	138,664	169,973	1,196,750
OPERATING EXPENSES						
Contracted Services	150,713	14,391	55,353	34,674	12,617	267,748
Supplies & Materials	6,100	15,352	23,387	3,885	4,301	53,025
Communications	13,969	9,403	5,388	21,817	10,704	61,281
Travel	8,363	6,381	3,288	4,536	8,470	31,038
Rent	122,815	3,276	671	7,666	9,556	143,984
Utilities		4				4
Repair & Maintenance	6,740	4,593	1,268	2,541	2,176	17,318
Other Expenses	9,376	5,399	4,685	5,400	4,633	29,493
Goods Purchased For Resale				437,331		437,331
Total	318,076	58,799	94,040	517,850	52,457	1,041,222
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment	3,731	51,722			8,040	63,493
Intangible Assets		3,666			521	4,187
Total	3,731	55,388			8,561	67,680
GRANTS						
From Federal Sources					176,246	176,246
Total					176,246	176,246
TRANSFERS						
Accounting Entity Transfers				41,320		41,320
Total				41,320		41,320
TOTAL PROGRAM EXPENDITURES	$669,771	$466,593	$281,783	$697,834	$407,237	$2,523,218
GENERAL FUND						
Budgeted	$478,786	$333,556	$207,342	$ 41,320	$ 64,986	$1,125,990
Actual	463,020	333,029	206,245	41,320	64,917	1,108,531
Unspent Budget Authority	$ 15,766	$ 527	$ 1,097	$ 0	$ 69	$ 17,459
SPECIAL REVENUE FUND						
Budgeted	$283,648	$168,934	$165,030	$ 58,500	$764,923	$1,441,035
Actual	206,751	133,564	75,538	58,500	342,320	816,673
Unspent Budget Authority	$ 76,897	$ 35,370	$ 89,492	$ 0	$422,603	$ 624,362
ENTERPRISE FUNDS						
Budgeted				$656,000		$ 656,000
Actual				598,014		598,014
Unspent Budget Authority				$ 57,986		$ 57,986

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 22 through 25.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1990

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana Historical Society uses the modified accrual basis of accounting, as defined by generally accepted accounting principles, for its Governmental and Expendable Trust Funds. In applying the modified accrual basis, the society records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the society incurs the related liability and it is measurable.

The following additional items are considered valid obligations or expenditures under state accounting policy:

- The entire budgeted service contract even though the department received the services in a subsequent fiscal year.
- Goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end.
- Equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the society to record the cost of employees' annual and sick leave when used or paid.

The Montana Historical Society uses accrual basis accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis, the society records revenues in the accounting period earned if measurable; it records expenses in the period incurred, if measurable.

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The society uses the following funds:

Governmental Funds	**General** - to account for all financial resources except those required to be accounted for in another fund.
	Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Society activity recorded in this fund is primarily related to federal assistance programs and donations.
Proprietary Funds	**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, or other purposes. The society accounts for the magazine program (which includes the merchandise, magazine, and Historical Society press operations) in this fund.
Fiduciary Funds	**Expendable and Nonexpendable Trust Funds** - to account for assets held by a governmental unit in a trustee capacity for individuals, private organizations, other governmental and/or other funds. The society records private donations established as trusts which permit spending the trust principal in the Expendable Trust Fund. The society records trusts from individuals which permit spending only earnings from investment in the Nonexpendable Trust Fund.

2. Annual and Sick Leave

Employees at the society accumulate both annual and sick leave. The society pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The society absorbs expenditures for termination pay in its annual operational costs. At June 30, 1989 and at June 30, 1990, the society had a liability of $103,172 and $87,819, respectively.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The society's contribution to PERS was $61,395 in fiscal year 1988-89 and $60,856 in fiscal year 1989-90.

4. General Fund Balances

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. Museum Collection

Museum collections at the society include C.M. Russell, Poindexter, Ethnographic, Griffin, History, Haynes, Johns Gun, Original Governor's Mansion, and the Permanent Fine Arts Collection. Library and Archives collections consist of books, periodicals, maps, microfiche, photographs, monographs, and manuscripts. For insurance purposes, the society recorded the estimated value of its collection as of June 30, 1990 at $34,412,116 on its property records.

6. Deferred Revenue

The society collects money subscriptions for the Montana History Magazine. As money is collected, it is recorded as deferred revenue. When publications are mailed, revenue is recognized and deferred revenue is reduced by the subscription price of those publications. At June 30, 1990, the society deferred $98,630 of magazine revenue in the Enterprise Fund.

7. Nonbudgeted Activity

Nonbudgeted expenditures in the Enterprise Fund in fiscal year 1989-90 are related to changes in merchandise inventories and compensated absence liability.

8. Revenue Estimates

The Schedule of Budgeted Revenue and Transfers In for the Special Revenue Fund shows large estimated revenues in relation to actual revenues for the Federal and Grants, Contracts, Donations, & Abandonments revenue classifications. Because federal, grant, and donation revenue is difficult to estimate, society management generally estimate higher, rather than lower, for these types of revenues.

Agency Response

MONTANA HISTORICAL SOCIETY

225 NORTH ROBERTS STREET • (406) 444-2694 • HELENA, MONTANA 59620-9990

February 22, 1991

RECEIVED
FEB 5 1991
LEGISLATIVE AUDITOR

Scott Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

The following is our response to recommendations in the financial Compliance Audit for the two fiscal years ended June 30, 1990.

Recommendation #1

We recommend the Montana Historical Society:

A. Transfer the money in the general trust account from the Expendable Trust Fund to the Special Revenue Fund and spend non-General Fund money first, in accordance with state law.

Response

We do not concur. We cannot state strongly enough our objection to this recommendation. On the face of the issue, it is absurd to expect that taxpayers would donate their private resources to this or any agency if such donation would simply be used to offset general fund and pay for such things as accountants, lights, or security. Donations, even if unrestricted, are presumed by the donor to be expended on exhibits, acquisitions, school projects, or preservation of historical materials.

Recognizing this and with the support of law, the Society Board of Trustees used their authority to determine the expenditure of donations of unrestricted or partially restricted nature. 22-3-101 MCA states in part "... perpetuated as the Montana Historical Society and as such constitutes an agency of state government for the use, learning, culture, and enjoyment of the citizens of the state and for the acquisition, preservation, and protection of historical records, art, archival and museum objects..." Clearly, statute anticipates acquisitions as a part of Society operations. To accomplish this 22-3-111 states in part, "The Society may engage in such fundraising and public contribution campaigns as will contribute to its continued development and support... All profits, revenues, royalties or fees received in any such manner...may not be used for any purposes other than the

improvement, development and operation of the Society.

Recognizing the Board's authority in this area and with the necessity to continue acquisitions as a part of operations the Board made a policy statement (303.3), July 20, 1984, that states "All unrestricted monetary donations in the Montana Historical Society shall be restricted in use to the Society acquisitions fund and for educational programs."

It is the Society's contention that under statute, acquisitions are a part of agency operations and that the Board has the authority to accept private funds and expend them for this purpose as a method of "improving and developing" the Society. It is also clear, that the legislature has not in the past twenty years provided any acquisitions funding in the general appropriations bill. It is, however, vital that acquisitions continue and the Governor's Budget Office concurs with the Society in the necessity to accomplish this in the most expeditious manner possible.

Recommendation #1

We recommend the Montana Historical Society:

B. Seek legislation to exempt the Society's donations from these laws.

Response

We concur. The Society will as soon as practicable seek legislation to establish an expendable trust specifically for acquisitions. This trust will be the repository for funds currently in the general trust and funds subsequently received which are either intended for acquisitions or large donations or bequests which are minimally restricted.

Recommendation #2

We recommend the Montana Historical Society:

A. Spend its accommodations tax revenue in accordance with state law, or

B. Seek legislation to amend section 15-65-121, MCA, to allow the Society to fund capitol tours with Accommodation Tax revenue.

Response

We partially concur. The Society has taken steps to amend language in 16-65-121 MCA to allow the operation of capitol tours with Accommodations Tax revenue. Legislation has been prepared and a sponsor found. However, the proposed bill is meeting opposition from within the executive branch and, to a certain extent, from members of the Legislature. The biggest objection

stems from a fear that to tamper with this statute would open the door to attempts to make major alterations to the original allocation of the Accommodations Tax.

If the opposition to the proposed bill is successful, the Society would be in a quandary. If the Governor insists on continuing the tours, we would have no choice but to do so. If he does not require their continuation, they would cease.

Recommendation #3

We recommend the Montana Historical Society develop adequate internal control procedures over the store operation and merchandise inventory.

Response

The Society partially concurs.

MOMS 2-1210 states "If feasible, functional responsibilities of Record Keeping, Authorization, Operations and Custodianship should be separated". There are two qualifying considerations in this section: 1) If feasible and 2) Should be separated. The Historical Society feels the Internal Controls over its store operation are adequate, taking into consideration the limited personnel in both the Merchandise operations and the Administration Program.

The Merchandise operations consists of a Merchandise Store Manager, two to three part time Sales Clerks (In total one FTE) and a part time Stock Clerk. The part time Clerks staff the store which is open six days in the winter and seven days in the summer. The only time the Store Manager covers in the store is in case of absences. As a result it leaves the Manager to be responsible for the several remaining functions.

The Centralized Services of the Administration Program performs Accounting, Purchasing, Budgeting and Personnel for the entire agency. Centralized Services only consists of a Centralized Services Manager, an Accountant, an Accounting Technician II and an Accounting Technician I. Taking into consideration their current workload it is not feasible for that office to perform any Store operations. The Society has stressed this to the Auditors, however, the Auditors still maintain that they believe the duties could be adequately segregated between the Merchandise and Accounting operations. The Auditors insist on having Administration perform a number of functions and the Society maintains that we do not have the staff to perform these functions.

At this time the Society can feasibly perform the following:

1) The Associate Editor of the Publications Program will authorize all purchases made by the Store.

2) The Administrative Assistant with the Merchandise Program will input all information into the perpetual inventory system.

3) Either the Publications Manager or the Associate Editor will supervise the physical count of inventories.

4) A written record of any inventory adjustments will be kept. This will also be reviewed by the Associate Editor of the Publications Program.

Without any additional FTE in either the Administration Program or the Publications/Merchandise Program, the Society feels this is the most that can be done with the existing staff.

Recommendation #4

We recommend the Montana Historical Society:

A. Document reasons for adjustments to the perpetual inventory records.

Response

The Society concurs with recommendation 4A, and has already implemented documentation procedures for the adjustments made to perpetual inventory.

Recommendation #4

We recommend the Montana Historical Society:

B. Input actual inventory unit cost amounts.

Response

The Society concurs with recommendation 4B. The current Administrative Assistant inputs the correct unit cost. However, the Society maintains that the perpetual inventory cost will not tie to invoices unless there have been no price fluctuations. This is a result of the use of an Average Cost flow which is in compliance with Generally Accepted Accounting Principles.

Recommendation #5

We recommend the Montana Historical Society update its standard contract form to comply with current state contracted services requirements.

Response

We concur. The Society, as in the past, will request a new standard contract be drawn by Agency Legal Services, Department of

Justice. The revised contracts will be effective July 1, 1991.

Sincerely,

Lawrence Sommer
Director

LS/db